

Polanyi's critique of Economic Liberalism

Polanyi attacks the causal chain of economic liberal thought

- Attacks core assumptions of economic liberalism: natural self interest and natural, self-regulating markets
- Argues that
 - Human behavior is motivated by social goals
 - greed and “rationality” are not “natural”
 - The market not “natural”
 - **His evidence is historical**

And because market behavior is
Not “natural” it had to be imposed!



Pre-Market Societies



- No Private Property
- No Money economy
- No “possessive Individualism
- No Markets

Embeddedness of the Economy in Society



• Society

Economy

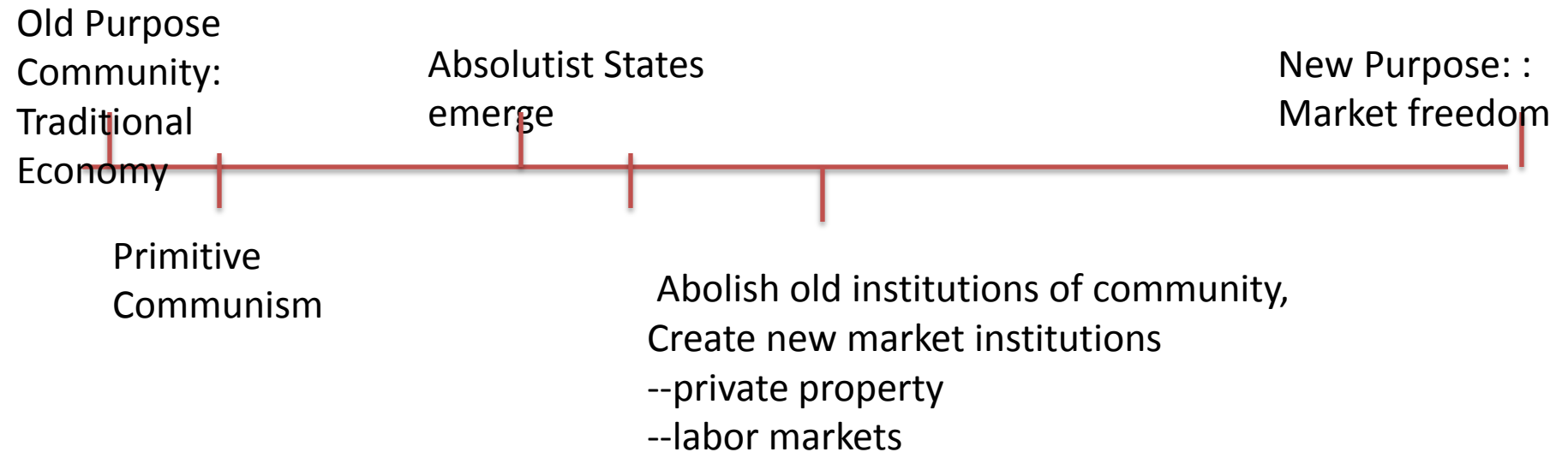
Pre-market societies

Society

- Mutual obligations
- Self-sufficiency
- Land is a gift from God
- Guilds
- Values: do what keeps the community
Together, Justice

Economy
• Minimal
profits,
competition

Markets had to be created by states: according to a new social purpose



For Markets to work correctly, Fictitious commodities had to be created



Land Before the Market: The “commons”



Commodification of Land: Private Property and Enclosures



Effects of Commodification of Land



Labor is simply commodified Humanity

- Human beings are reduced to economic tools of production...what would YOU be doing now if you didn't live in a Market system?
- Labor can be bought and sold—giving human Beings a price—reducing their value?
- Adjustment: the Dark underbelly of comparative advantage
- “adjustment” means uprooting people, sending families



Commodification of Money

http://www.newyorker.com/reporting/2010/11/29/101129fa_fact_cassidy#ixzz1DK0I6oAW



For years, the most profitable industry in America has been one that doesn't design, build, or sell a single tangible thing.

Making Money!

But that's not ALL banks are doing: They're creating really, really fictitious commodities

- Banks are in competition for profits
- They need to innovate
- Because there's a market for money, banks are trading abstractions—bets... **such as the price of a stock or the level of an exchange rate**
- big banks invent new financial products that they can sell but that their competitors haven't thought of
 - Pollution rights
 - Credit Default Swaps: A bet on whether a bond will default

Trading in abstractions: socially useless activity

- Nothing of real worth is generated
- Finance extracts “rents” from the real economy



But it's a Prisoners Dilemma—leading to a financial crisis

		Cooperate	Compete
Cooperate	Banks fund wealth-creating activity	Noone wants to be a sucker—Banks need to make a profit by competing	
Defect	No bank wants to be a sucker—they lose if they JUST fund wealth creation	Banks compete for revenue and profit; invent new products; bad for all—run on banks	

Prisoners Dilemma + Logic of collective action



Creating fictitious commodities leads to the encroachment of the Market on **Life Itself**

- Social Darwinist view of society
- devalues what we value
- The market encroaches on

All of life....takes over
EVERYTHING.....



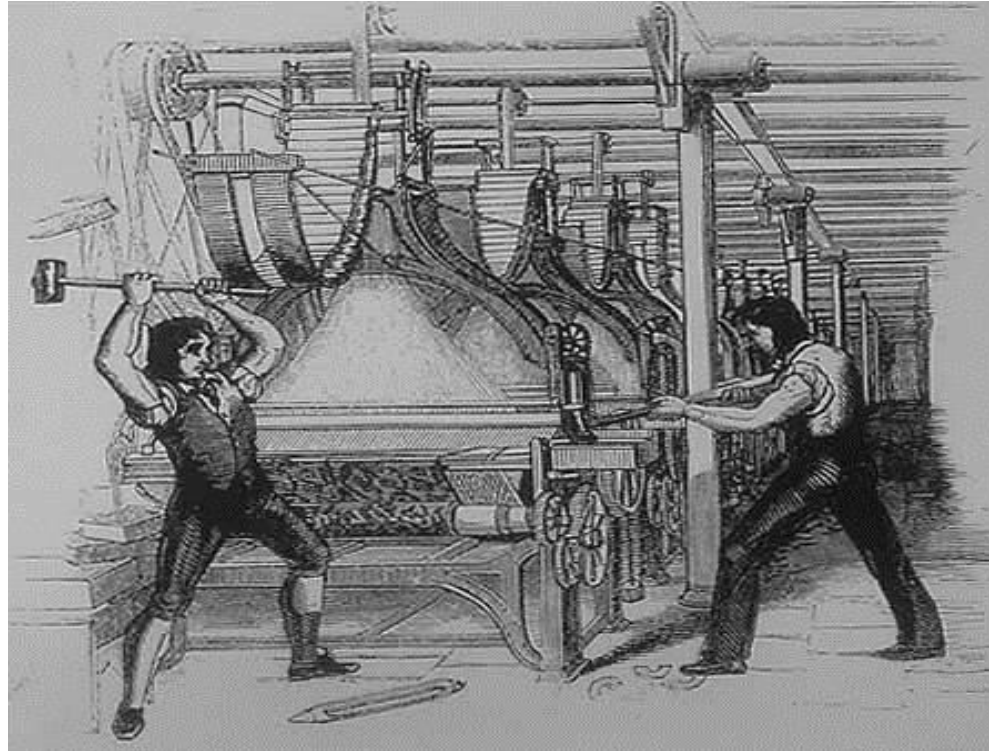
The Result? Society is now embedded in the Market Economy

Society



Market Economy

The Double Movement back then: People fought back against the Industrial Revolution



People had to fight back or it would have been the destruction of Human Society!

Double Movement Today: Anti Neo-liberalism and Anti-Globalization



Another Double Movement in the second decade of the 21st century?



Sum: Liberal theory and Polanyi's critique

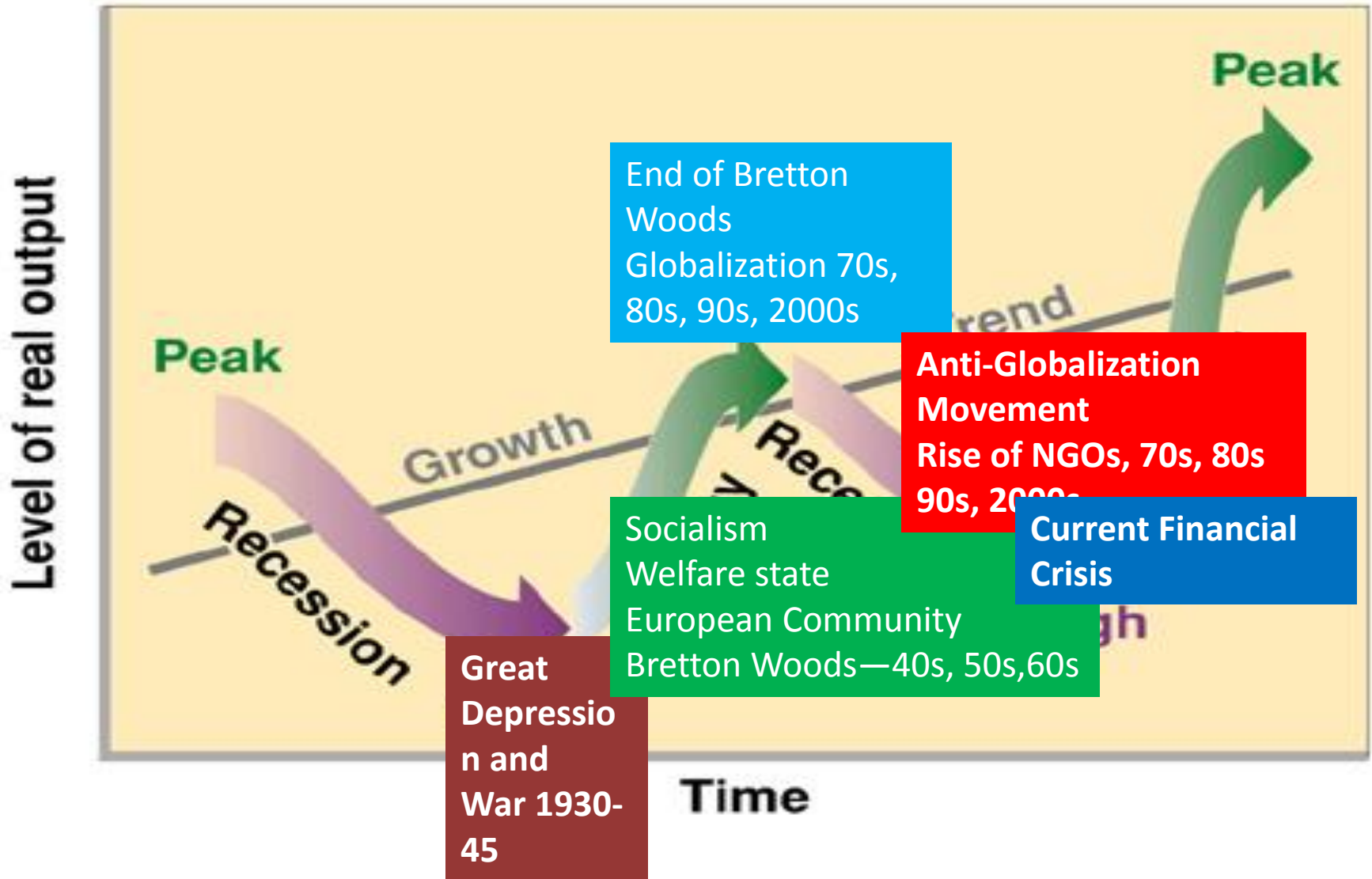
**Smith, Ricardo, Hayek,
Friedman, Olsen, Coase**

1. "natural" Rational (self-interested, profit-seeking) **individual** +
2. Natural propensity to trade (exchange) → spontaneous markets
3. Freedom= removal of political power....it is a barrier to natural exchange)

Polanyi

- **No** ...humans are social beings
- **No** Spontaneous markets. The "Natural" human tendency is to preserve humanity, society, and nature
- **NO**: markets had to be **created** by political power (state)
- So.....what are freedom and rationality in a market society?

Historical Double Movements and the business cycle



Sum: Liberal theory and Polanyi's critique

Smith, Ricardo, Hayek, Friedman, Olsen, Coase

1. Price mechanism
(information about value)
→
2. Innovation + specialization
(division of labor)
3. Comparative advantage
→
4. Efficiency →
5. Growth →
6. Everyone is better off

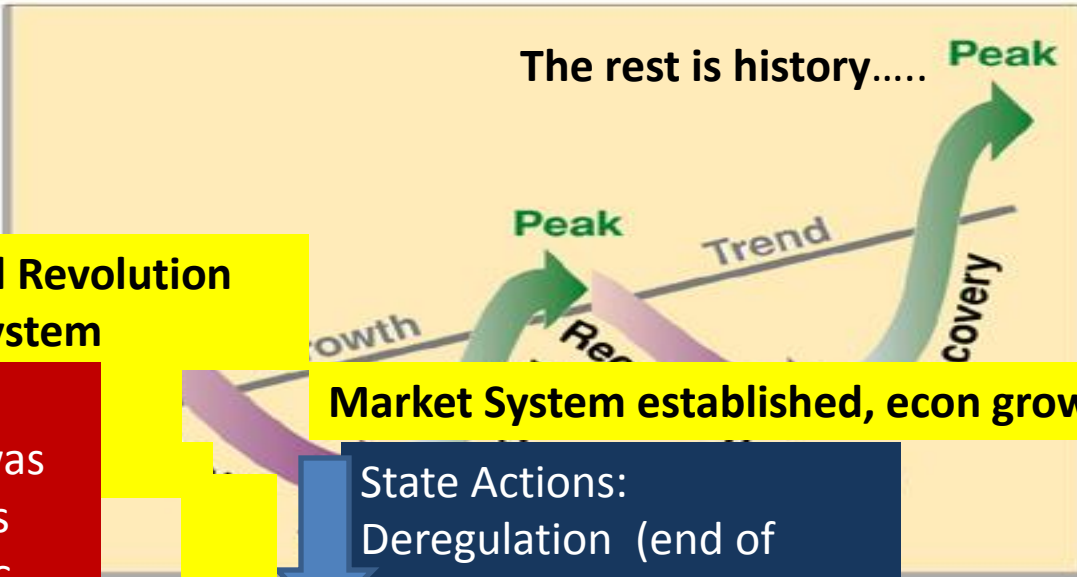
Polanyi

- Artificial Commodification of land, labor, capital (creation of property "rights") → destruction of society (community) →
- Some are better off (market winners), more are worse off (market losers) →
- Movements to protect society from markets

Critique?

- Free Market capitalism is resilient, conquering vast new places—even China!
- Real Alternatives no longer beckon
- Was pre-industrial society really so great?
 - They were dependent on the weather!
 - superstition
- Does Polanyi represent the triumph of Romanticism?

Sum: The state creates the Market



**Pre-Industrial Revolution
No Market System**

No Markets, Lots of "commons" Labor was human life, land was nature, no economic growth Markets were embedded in society, people were content, not striving for gain

Introduction Of Market economy

Market System established, econ growth starts...

State Actions:
Deregulation (end of Speenhamland and introduction of new poor laws), enclosures
End of the corn laws → Economic growth

Rise of Absolutist State